

**SUPPLEMENTARY FINANCING FOR THE ROAD INFRASTRUCTURE
SUBPROJECT OF LOAN 1029/SF-HO**

(HO-0164)

EXECUTIVE SUMMARY

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| Borrower: | Republic of Honduras | |
| Executing agency: | Ministry of Public Works, Transport, and Housing (SOPTRAVI) | |
| Amount and source: | IDB: | US\$26.8 million (FSO) |
| | Local: | US\$ 4.9 million |
| | Total: | US\$31.7 million |
| Financial terms and conditions: | Amortization period: | 40 years |
| | Physical start-up: | 12 months |
| | Disbursement period: | 24 months |
| | Interest rate: | 1% for the first 10 years 2% for the next 30 years |
| | Inspection and supervision: | 1% |
| | Credit fee: | 0.5% |
| Objectives: | <p>The purpose of the project is to supplement the financing approved by the Bank's Board of Executive Directors in January 1999 for the emergency road and water-supply infrastructure program (HO-0143). The Bank's funding fell short of the Government of Honduras's request for US\$44.1 million, and the difference of US\$18.1 million was borne entirely by the road sector. The Board of Executive Directors approved the loan on the understanding that, depending on the availability of resources in the Fund for Special Operations, Management would subsequently submit a proposal to the Board for additional funding.</p> | |
| Description: | <p>The additional resources would be used to: (i) rebuild and restore 89 km of paved primary roads; (ii) rebuild and pave 17 km of secondary roads; (iii) build 340 meters and repair 260 meters of bridges; and (iv) repair the damage in Taulabé, at km 140 on the Tegucigalpa-San Pedro Sula highway. In addition, consulting services will be funded for: (i) supervision of work; (ii) review of final engineering studies; (iii) concurrent financial auditing; and (iv) institutional strengthening of SOPTRAVI. Resources for purchasing computer equipment are also included.</p> | |

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| The Bank's country and sector strategy: | The Bank's support is consistent with the objective of collaborating with the country to mitigate and reduce the social, environmental, and economic costs and to repair the damage caused by Hurricane Mitch. |
| Environmental and social review: | <p>The rehabilitation work will be carried out in developed areas and will have no adverse environmental or social impact. The impacts likely during execution will be localized, small-scale, brief, foreseeable and mitigable.</p> <p>The Committee on Environment and Social Impact approved the project's environmental aspects (including the environmental brief for the emergency program) at its meeting of December 15, 1998 (see paragraphs 3.13 through 3.19).</p> |
| Benefits: | Considering that the resources will finance the rebuilding, restoration and improvement of roads that link the country's production centers and markets, the investment will yield a high rate of return (see paragraph 4.6). |
| Risks: | Experience since Hurricane Mitch has shown that the principal risk of this project lies in the massiveness of the rebuilding task, which encompasses the road sector as well as other sectors competing for support from the government and the international collaborative group for the coordinated use of resources (see paragraphs 4.19 through 4.22). This risk is mitigated by SOPTRAVI's demonstrated capacity for program implementation under the first financing from the Bank (see paragraphs 2.1 through 2.3). |
| Special contractual clauses: | <p>The following are <u>conditions precedent to the first disbursement</u>: (i) evidence that the consulting contracts for the manager and specialists of the executing unit have been signed (see paragraph 3.3); (ii) the environmental specialists for SOPTRAVI's Environmental Management Unit have been hired (see paragraph 3.7); and (iii) the consulting services to conduct the concurrent project audit have been hired (see paragraph 3.12).</p> <p><u>As a condition precedent to awarding the works projects</u>, evidence is to be presented that the consulting firm has been hired to provide quality control and technical supervision of the respective project and the environmental impact measures that are to be implemented (see paragraph 3.10).</p> <p>Agreement will also be reached on implementation arrangements (see paragraph 3.8) and project monitoring and evaluation arrangements (see paragraphs 3.23 through 3.25).</p> |

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| Poverty-targeting and social sector classification: | The emergency project qualifies geographically as a poverty-targeted investment as stipulated in the Bank's Eighth Replenishment (document AB-1704), inasmuch as 75% or more of the overall length of the targeted roads lies in municipios whose populations live below the poverty line (see paragraphs 4.17 and 4.18). |
| Exceptions to Bank policy: | It is recommended that the contract with the firm responsible for the concurrent project audit of loan 1029/SF-HO be extended or, if an extension is not possible, that another firm be hired on the basis of a restricted call for proposals (see paragraphs 3.11 and 3.12). |
| Procurement: | Standard Bank procurement procedures will be used. International competitive bidding will be required for contract amounts above: US\$350,000 for goods and related services, US\$3,000,000 for construction work, and US\$200,000 for consulting services (see paragraphs 3.20 through 3.22). |